

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL MEMORANDUM**

**HB 2112 – SB 2256**

February 19, 2018

**SUMMARY OF ORIGINAL BILL:** Establishes a method of apportionment that may be elected for financial asset management companies for franchise and excise (F&E) tax purposes.

**FISCAL IMPACT OF ORIGINAL BILL:**

Other Fiscal Impact – Not significant impact on current F&E tax collections. However, to the extent the proposed legislation incentivizes financial asset management companies to begin operations in this state, or to the extent such companies would have begun operations in the state in the absence of this legislation, the proposed legislation could result in increases in state revenue or forgone state revenue. Any such impacts cannot be determined with reasonable certainty because such impacts are dependent upon several unknown factors.

**SUMMARY OF AMENDMENT (013223):** Deletes and replaces language in the original bill such that the only substantive change clarifies the definition of “financial asset management company.”

**FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:**

**Unchanged from the original fiscal note.**

Assumptions for the bill as amended:

- This legislation authorizes financial asset management companies to apportion their net worth, for franchise tax purposes, and their net earnings, for excise tax purposes, by multiplying them by a fraction in such that the numerator is the total receipts earned in Tennessee during the taxable year and the denominator is the total receipts everywhere during the taxable year. This authorization applies to tax years beginning on or after January 1, 2018.
- Under current law, pursuant to Tenn. Code Ann. §§ 67-4-2012(a) and 67-4-2111(a), taxpayers doing business both in and outside this state are required to apportion their net worth and net earnings to this state by multiplying such values by a fraction, the numerator of which shall be the property factor plus the payroll factor plus three times the receipts factor, and the denominator of the fraction shall be five.

- Taxpayers whose principal business in Tennessee is manufacturing are exempt from this requirement and may elect to apportion their net worth and net earnings to this state using the same formula as proposed by this legislation for financial asset management companies.
- According to the Department of Revenue, based on research of F&E taxpayers, there are currently no taxpayers that meet the definition of a “financial asset management company” that would elect the method of apportionment provided in this legislation; therefore, there is estimated to be no significant impact to current F&E tax collections as a result of this legislation.
- To the extent the proposed legislation incentivizes new financial asset management companies to locate and do business in this state, there would be an increase in state revenue, as such companies currently do not have any tax liability in the state.
- To the extent any financial asset management companies would locate and do business in this state under current law, the proposed legislation will result in forgone state revenue, as such companies’ F&E tax liabilities would decrease compared to what they would be under current law.
- Due to multiple unknown factors, the timing and extent of any such increase in state revenue or forgone state revenue cannot be determined with reasonable certainty.

#### **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

/jdb